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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000306

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SUBJECT: AZERBAIJAN: AMBASSADOR, MINISTER OF ECONOMIC
DEVELOPMENT DISCUSS FURTHER COOPERATION

Classified By: Ambassador Anne E. Derse
Reasons 1.4 (b, d)

¶1. (C) Summary: The Ambassador met April 1 with the somewhat reclusive new Minister of Economic Development Shahin Mustafayev to discuss ongoing commercial and economic cooperation, including WTO accession. Mustafayev presented a very favorable assessment of Azerbaijan's economy and suggested that the business climate is already very good, while complaining about trade restrictions associated with Section 907 of the Freedom Support Act. The Ambassador said that the U.S. Embassy and USAID would continue to support Azerbaijan's WTO efforts, in line with President Aliyev's objectives, and awaits revised goods and services offers. Mustafayev said initial work should be done by mid-April and that his ministry is preparing a legislative action plan. The Ambassador encouraged Mustafayev to continue reform efforts on public investment, including cost/benefit analysis, and pressed for additional cooperation on Azerbaijan's draft competition law. Mustafayev expressed appreciation for USAID training and emphasized President Aliyev's goals for development in the regions, including additional support for small- and medium-sized enterprises.
End Summary

¶2. (C) The Ambassador met April 1 with Minister of Economic Development Shahin Mustafayev to discuss WTO accession, reform efforts and assistance projects. Mustafayev, in turn, raised GOAJ concerns about Section 907 of the Freedom Support Act, calling for it to be repealed. Describing ongoing differences about Section 907 as "regrettable,⁸ the Minister repeated a common GOAJ talking point of late: the U.S. Government's annual waiver of the provision is insufficient and unbalanced. Given a high level of strategic cooperation between the two governments, he said, Section 907 must be revoked.

¶3. (C) Minister Mustafayev presented a highly favorable assessment of Azerbaijan's economy. Despite the worldwide crisis, he reported that GDP, on an annual basis, is growing at 3.4 percent, with growth in non-energy sectors) namely agriculture) reaching 14 percent. Domestic and foreign investment combined is increasing by 27 percent, with imports rising by 30 percent. Average salaries have surged by 26 percent, reaching USD 360 per month on average. President Aliyev, he said, continues to favor development of non-energy sectors, and is pleased by developments in agriculture. Azerbaijan's 2004-2008 five-year plan came to completion in December, with new roads, power plants, hospitals, schools and cultural centers constructed. Nearly 750,000 new jobs were created during the period. &I could go on and on speaking of Azerbaijan's achievements,⁸ the Minister said.

WTO Accession

¶4. (C) The Ambassador said that President Aliyev has said publicly that he is committed to Azerbaijan's accession to WTO, and noted that while tremendous progress has been made in recent years, a final push is necessary on Azerbaijan's side to realize this goal. WTO accession, she said, would spur economic growth, particularly in non-energy sectors and among small and medium-sized enterprises. A USAID-funded study, which was shared with the Ministry, concluded that WTO membership would add 2.5 percentage points to annual growth. Still, Azerbaijan must produce further legal and regulatory changes, including a second legislative action plan, to keep up momentum. The USG also is awaiting revised goods and services offers. The USG stands ready to offer additional technical assistance on legal and regulatory reform to the GOAJ. Under a co-financing agreement, subsequently signed by the Minister of Finance, the GOAJ would contribute USD 3 million this year to support WTO accession.

¶5. (C) Minister Mustafayev said that Azerbaijan's political objective has not changed) WTO accession is a priority) and the GOAJ appreciates the assistance of USAID. The Ministry is now preparing answers to questions raised at multi-party talks in Geneva in December. That exercise should be completed by mid- to late-April. Azerbaijan is developing a legislative action plan, and the Ministry is enhancing staff to speed up the WTO accession process. At the same time, he warned, Azerbaijan worries that hasty accession might threaten development of the agricultural

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sector. &We want WTO,⁸ the Minister said, &but we cannot undermine the achievements that we have already made.⁸ Mustafayev also expressed concern about some countries that are acting to protect markets in the face of the global economic crisis.

Public Investment

¶6. (C) The Ambassador noted USAID support for the Ministry's efforts to improve cost/benefit analysis for publicly funded infrastructure projects and other big-ticket budget items and encouraged additional reforms. She applauded the establishment of the Ministry's new Public Investment Department and noted that more than 100 civil servants have been trained in cost/benefit analysis principles. USAID began an intensive 8-week training program on cost/benefit March 30, and three Ministry staff members are enrolled. She suggested that the Ministry now finalize and pass to the Cabinet of Ministers a comprehensive draft public investment decree, which would mandate rigorous cost/benefit standards for all new large-scale projects, with appropriate monitoring. Mustafayev said that previous practice in this regard was not based on legislation or regulation, but rather project specific instructions from the Cabinet of Ministers. He noted that the President had called for a project monitoring plan. The Minister expressed appreciation for USAID's support for training and suggested that domestic and international experts gather regularly to discuss issues.

Business Environment

¶7. (C) The Ambassador said that Azerbaijan needs to build on last year's success, as highlighted in the World Bank's Doing Business report, and continue efforts to improve the business climate. Several prominent U.S. companies, she noted, have not been able to complete deals in Azerbaijan. &Our commercial relationship needs to be further developed,⁸ she said. The U.S. Government granted Azerbaijan an advantageous trade status through the Generalized System of Preferences (GSP) late last year. She highlighted three areas for additional cooperation:

Azerbaijan's competition law, which is approaching its third and final reading in parliament; the investment law; and the bankruptcy law. The USG also stands ready to help Azerbaijan with its new Investment Promotion Agency.

¶8. (C) Mustafayev said that his ministry's Legal Department should be the main point of contact for U.S. Embassy and USAID comments on the competition law. Otherwise, he said, Azerbaijan already has a favorable business environment, with existing investors who are &comfortable and happy.⁸ Still, there is work to do on the investment law. The Minister has embarked on a mission to explain GSP to Azerbaijani businessmen, and the Ministry may establish a hot-line to support entrepreneurs. The Ministry has already set up Business Training Centers, because it understands that small businessmen do not know how to prepare business plans and draft budgets.

Development of the Regions

¶9. (C) The U.S. Embassy and USAID are committed to supporting President Aliyev's plans for rapidly accelerating regional socio-economic and non-oil sector development, the Ambassador said. The Ministry of Finance has received authorization to sign a USD 45 million Co-Financing Agreement with USAID (subsequently signed), of which USD 14 million will be directed to programs in this area. These issues could be further explored at the next meeting of the Economic Partnership Commission, which is tentatively slated to convene in Baku this summer. Mustafayev acknowledged the President's priorities, and encouraged USAID to touch base with the Ministry's National Fund for Entrepreneurs. This fund, he said, would work with the banking sector to extend credits of up to USD 150 million to small businesses in 2009. Additionally, he noted, Azerbaijan is negotiating with the World Bank on a USD 100 million plan for development of small- and medium-sized enterprises. Moreover, Azerbaijan's State Investment Company recently signed an agreement with Kuwait on SME support.

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Comment

¶10. (C) The Ambassador's meeting with Mustafayev, who took the helm at the Ministry in November 2008, covered much ground, but was less than reassuring on some fronts. The Minister, who has gained a reputation in Baku for being a micro-manager and workaholic, appeared to have his staff on pins and needles, and regularly flipped through a thick, color-coded briefing book during the discussion. Moreover, his long discussion of Azerbaijan's many &achievements⁸ and a recitation of impressive, but unconfirmed economic statistics, positioned him more as an old style bureaucrat or technocrat than a reform-oriented mover and shaker like his predecessor Heydar Babayev (who told the Ambassador sarcastically that Mustafayev had been selected to succeed him because "he can't make a decision," but was good at crafting positive statistics.) The rumor mill in Baku suggests at Mustafayev is a confidant of omnipresent politician and businessman Kamalladin Heydarov, who currently serves as Minister of Emergency Situations. To some extent, at least, administrative paralysis has set in at the Ministry, as Mustafayev replaces top officials. On the positive side, Mustafayev repeated several times that he appreciated the USG's support on economic reform and development, including WTO, and he authorized his staff -- who has been reluctant under his new leadership to work as closely with us as they have in the past -- to now engage directly with USAID on existing and planned new projects. His actions in coming months, particularly on WTO accession, will be telling.

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